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Brown, Donald Campbell

Adjustment of stock losses

[New York]

[1915]

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Box 9 Brown, Donald Campbell, 1862-1915.

Adjustment of stock losses; an address written for the one hundred and twelfth meeting of the Insurance society of New York on May 18th, 1915, by Mr. Donald C. Brown. New York, C. H. Jones & co., printers, 1915,

12 p. 23^{cm}.

I. Insurance, Fire—Adjustment of claims.

Library of Congress
Copyright A 410140

HG9721.B7

15-18788

Only Ed.

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 1-13-97

INITIALS: PB.

TRACKING #: 20118

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BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Brown, Donald Campbell.....

Adjustment of stock losses.....

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Adjustment of Stock Losses

AN ADDRESS

Written for the One Hundred and
Twelfth Meeting

OF

The Insurance Society of New York

ON

May 18th, 1915

BY

Mr. Donald C. Brown

Mr. Donald C. Brown died on April 13th, 1915, and this paper prepared by him was read at the meeting by Mr. L. C. Williams.

The Adjustment of Stock Losses.

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The subject assigned to me by your Committee does not lack in comprehensiveness and to the modern adjuster of fire losses there is nothing too difficult to tackle; therefore when we pause to consider the possibilities under the title of this paper, there need be little concern as to what constitutes the particular stock damaged—for after all, everything on or under the earth, and below the heavens, and all that is contained in the air and seas, will sooner or later comprise in the raw state, or in the manufactured product—stock, subject to the ravages of the fire fiend.

To the lay mind there is something uncanny suggests itself when considering the qualifications of an experienced adjuster and there is no little skepticism about his ability to pass intelligently and competently on every class of merchandise known to the present generation, and, right here in the Metropolitan district, perhaps more than in any other portion of the Globe of equal dimension, is it possible to find assembled so large a variety of products of the earth, air and sea in their raw and manufactured states.

Stocks may be divided into the three classes—animal, vegetable and mineral, with their myriads of raw specimens and their untold numbers of manufactured or converted products, and each in turn may be found in several relative hands, the breeder, the fisherman, the miner, the forester, the gardener, the hunter, the importer, the jobber, the commissariat, the wholesaler, the retailer and department storekeeper, and occasionally the consumer, and more often the manufacturer, his factor, agent or representative, but wherever the *Stocks* may be, or in whose hands they may be found, the questions for the adjusters are always the same: "What was the value at the moment of the fire," and "What is the damage."

I have been informed that the course of addresses is intended for the instruction, if not the guidance of the younger generation of adjusters, and assuming that to be the purpose of the series, begin by saying that there is no system of adjustment known to me as mathematically or scientifically correct. A goodly number of years ago, and before the days of the Bureau system, a friend of mine sighed for a composite photograph of the fifty-seven varieties of adjusters who were then responsible

for adjustments in the Metropolitan district; there were then not fifty-seven *kinds* of adjustments, but there were so many systems in force—and they were not all wrong, neither were they by any means all right—but they were sufficiently diverse and unfriendly as to make the student of ethics despondent. These adjustments resulted in lack of confidence amongst the Insurers and led more than a little to the depletion of the Companies' funds and explanation of profitless periods.

The loss should be examined as early as possible, the sooner after the fire the adjuster is on the spot, the better, (sometimes it would be to his advantage to be there when the alarm is turned in). I recommend adoption of a system that embraces the noting of location, height, construction and occupancy of the building, property covered by the policies, a careful reading of the policy form, date, how and cause of fire, length of time the assured has been in business, and in the building, cultivation of the habit of taking mental photographs of the premises and the contents. Note the correct name of the insured, be it individual, copartnership or corporation; and ascertain the full names of partners, officers of corporations, date of incorporation and capital. Memoranda should be brief, concise and confined to the limits of an adjuster's card or file envelope. Early ascertain the whole amount of insurance, examine the policies and compare same with policy form already obtained. The ability to correctly read a policy form and quickly digest its interpretation in application to the loss is of the utmost importance. Keep a sharp lookout for non-concurrencies, and be sure that all the property included in the claim is covered by the form. See that all warranties have been complied with, and that the privileges and permits have not been exceeded.

It is generally expedient to ask the insured a few simple questions as to his business record, and previous fire claims (if any); care should be taken not to antagonize him, instead, endeavor to put him at his ease and avoid giving him the impression that he cannot recover for some reason, technical or otherwise. It is usually advisable to follow along the line of least resistance in the early stages of the adjustment and let the other fellow do most of the talking.

In the event there is no public adjuster or broker with adjustment facilities advising the insured, it is the duty, as it is the privilege of the Company's man, to instruct the Insured as to his rights and obligations under the policies.

The preliminary estimate of the loss is not the least important

of the adjuster's functions. There are *six* kinds of losses, to wit:—by fire, by heat, by smoke, by water, by breakage or musing, and, at times, it is claimed by odor; there may be any combination of these, and there may be losses that embrace them all. There are the degrees of loss, from total to trifling, and then we have the most vexatious of all claims, these might well be termed the "imaginary," "suggestion" or "claims of opportunity." Fire and Police Departments and Salvage Corps use the following classifications, viz:—"trifling," "slight," "considerable," "total loss." The daily newspapers publish under "fire record," amounts given, we understand, by the Police Department. If these were added together and compared at the end of a year with the payments actually made by the Companies, one would find the public reports to have been wholly inadequate, and we are not unmindful that newspaper reports of losses are apt to run enormously too high in reference to individual fires. A loss that is reported as trifling or slight, may turn out to be a total loss to insurance, if not to value, while one reported considerable or total loss, may be comparatively small to insurance, if not to value, and, we are all more or less familiar with cases where the claimant receives substantial damages, who was not even mentioned in the list of losers or classed as "an also ran."

Estimating losses comes intuitively to the experienced adjuster. Before turning in an estimate, it is of importance that the approximate value of the stock be known. I favor the conservative estimate; too many are the reverse way, and most Companies seem to prefer a liberal one, but many adjusters do their best work when face to face with a conservatively estimated loss, although most of us get (or take) credit for a good adjustment when the case is closed showing a substantial reduction of the book estimate. Occasionally, in cases of frivolous or vexatious claims, it might be better not to turn in any estimate, Loss Departments being allowed to make their own on the information received. Always remember that you have rivals in estimating. They are usually the placers for brokers who seek to comfort the counterman or underwriter the day after the fire by putting an estimate of five or ten per cent. over the local counter, while the adjuster has turned in fifty or sixty per cent. to the Loss Department, and often enough, the rivalry is intensified when later on, you have heard from the insured and you find he claims a total loss. As a rule, in cases where there is no doubt of a substantial loss, your estimate should be liberal enough to offset any surprises in store.

Having by this time diagnosed the case, it is ready for treatment: There are but three methods provided in the policy, viz:—by agreement, appraisal, and (at the option of the Company), acquirement or disposal, of the damaged stock at its ascertained or appraised value. The insured must *never* be permitted to abandon a stock. Stocks may be divided into *two* classes, perishable and non-perishable. For the purposes of illustration—perishable stocks comprise all foodstuffs, fibres, vegetable and animal products, raw and manufactured; this class requires immediate action to secure the proper salvage, and as a rule should be removed from the fire premises for better protection, or for sale on account of the loss. An agreement should be reduced to writing, simple in its terms, signed by or on behalf of the insured and the insurer, the parties to the original contract, and always made subject to the terms and conditions of the policy. Non-perishable stocks may embrace every kind of merchandise not already mentioned, and in many cases it is of advantage, if not a necessity, to remove the damaged stock for better protection or reconditioning.

In any case where there is doubt as to values, caution must be exercised, and it is often better in the case of a non-perishable stock, to leave it on the fire premises until sorted and inventoried, as in that way only, can the identity of the stock, and its value, be properly demonstrated, as against a book statement of an unreliable nature.

A typewritten inventory of values, and if possible damages, in parallel columns should be required of the insured. Always have the insured state his claims on the specific items, if not already noted on his inventory. Avoid making up an inventory for the insured, rather insist that it be presented by him in this way, otherwise it may be claimed later that the inventory was not made by the insured and contained errors, omissions etc. for which you may be blamed.

Values should be carefully examined into, due regard being paid to the condition of the market at the time of the fire. Examine closely into trade and cash discounts, and scrutinize depreciations however caused. Values may be verified from the books of account, bills, invoices or certificates of market values from exchanges or brokers, the latter method usual on fibres, grain, foodstuffs and so on, wherever there is an established market quotation. Endeavor to agree with the assured, item by item, as to the amount of loss. Damages agreed upon must be mutually arrived at and may be on a compromise basis, provided always the

same conforms to your own judgment or the opinion of your expert.

Scrutinize carefully, books of account and merchandise statements, the bonafides of the starting point (generally the annual inventory) must be cautiously canvassed (particularly for items other than merchandise), purchases and sales should be properly analysed and all non-productive charges should be eliminated from the labor account.

The profit ratio is frequently the crux to proper ascertainment of values from the usual books of account. In the most of cases, the ratio is based on the previous year's trading, but if conditions shall have changed, such a basis may not be reliable and while the adjuster should always, when dealing with a book statement, inform himself as to the profit in previous periods, he should not adopt the same unless he is satisfied it does substantial justice to every interest. The most expert adjuster does not hesitate to call the expert accountant to his assistance in such a case.

In arriving at the amount of the loss, particularly in fixing damages, the adjuster should not rely wholly and entirely upon the opinion of the expert. Experts, like doctors are apt to disagree; their advice may be good and useful in matters of value, but in dealing with the question of damage to stocks of merchandise, the practical adjuster does not rely upon the judgment of a third party to the exclusion of his own opinion. The adjuster of experience gives in to no one on a question of damage: first, last and altogether, he should maintain that *he* is an expert on fire damages of all kinds, and his opinion, therefore, is as good and probably much better than any combination of experts. The ordinary layman called in to express his "expert" opinion, is prone too often to misconstrue or misinterpret the policy and many of them have the common fault of miscalculating to an extraordinary degree, the monetary value of their services.

Failing to agree with the assured as to the sound value and measure of damage, the policy provides the appraisal condition. The standard policy does not require that the agreement to appraise shall be reduced to writing, but it is usually so done. The selection of an appraiser is not the least difficult of the adjuster's duties:—the appraiser must be competent and disinterested, and it is well that he should be experienced—but the policy does not say so and the Courts have sometimes held that he had better not be. The conduct of an appraisal has been dealt with extensively elsewhere in the present course of lectures, and we

shall content ourselves here by stating that at all times before commencing an appraisal, the adjuster is entitled to be consulted by and to consult with the appraiser or appraisers, as well as the umpire if necessary, as to the conduct of the appraisal, but in no event, must the adjuster in any way attempt to prejudice or interfere with the work of the appraisers; they must be left to their own resources in the determination of sound value and damage, approaching the adjuster only as they may also approach the assured, for *information* but not for *opinions* relating to the case.

I would urge the desirability of securing Mercantile Agency and such other reports as will be informative with regard to the history of the assured and his condition at the time of and previous to the fire. I am aware that many capable adjusters have something of contempt for these reports, but from my experience and observation, I desire to emphasize the great importance of cultivating the habit of securing and digesting these reports. Information thus furnished has not infrequently started the first lead to defeating a fraudulent claim. It is also helpful to the adjuster that the assured's record with regard to fire and burglary claims should be known. We do not mean that the record of fires in the assured's premises alone should be known, but that all claims on Insurance Companies should be known also. Valuable information may often be secured from a previous claim that will guide the adjuster in the treatment of the particular claim on hand.

A sharp lookout should be exercised for the unearthing of fraudulent claims and of incendiary or arson fires. The busy adjuster is somewhat handicapped for lack of time in this work but every adjuster may at least start the investigation that will produce leads for investigators, whether they be attorneys, detectives or accountants, that may ultimately bring out the facts and prevent, if not wholly at least in part, a recovery in a fraudulent case. It is the worthy ambition of every adjuster to be able to wholly defeat fraudulent claims, and as has occasionally happened, to have his case so complete as to secure abandonment of the claim without expense of litigation, and while the latter experience does not come many times in the career of a successful adjuster, the satisfaction that comes from the accomplishment of the feat is surely the best incentive to cover the ground thoroughly when you are dealing with a crooked case.

In dealing with the subject of my address, I am necessarily compelled to give considerable attention to the fellow who makes

the adjustment for the Companies, and I may be pardoned for a little digression right here in favor, rather in criticism of the man who adjusts for the insured, be he broker, lawyer, layman, or more commonly, public adjuster.

Recently, looking over some papers I wrote as a correspondent for a monthly publication conducted across the sea by an old Scotch friend of mine, lately deceased, who was the responsible editor for one of those more or less comic journals issued in the interests of finance, insurance and commerce, I came across this gem, written in the closing period of the last century;

"Reform in adjustment of fire losses continues to excite attention in sections of the country. New York Board of Fire Underwriters will endeavor to launch its new scheme and specific for all the evils supposed to exist in a few days. In many quarters where the Reformers are well judged, it is the sound opinion that the proposed new scheme will not operate as long as it has taken its producers to evolve it. What is looked upon as an attempt to weed out the objectionable and dishonest public adjuster in New York City, is the issuing of printed cards through the salvage patrolmen to the victims of fire, warning policy-holders not to employ any assistance until they have first communicated with the Insurance Companies. The instructions are printed in English and in German. We can scarcely conceive of anything more calculated to advertise the public adjuster and bring grist to his already large mill. The public adjuster has come to stay and while he now only operates in the larger centres, he is destined to branch and flourish all over the country. The Companies as a whole are responsible for his success, and it seems as if the New York Board of Fire Underwriters should know better than attempt to dry up the ocean with a mop stick."

I am glad the prophetic prediction of the passing away of the Loss Committee, or its system, has not materialized, and call your attention to the fact that the instructions to policy holders in English and German, while having all the appearance of neutrality, was to say the least of it, discrimination against a large portion of our alien population. The public adjuster's influence and growth has been more than realized in the interim. It is but fair to say that the public adjuster can be, and often is, useful and helpful to a marked degree. Sometimes he has been known to uncover, if he does not report, fraud. Some folks regard him as always inimical to the insurers' interest. For myself, I am content to say that sometimes the assured and the public adjuster are as a combination troublesome, unfair if you will; more often the public adjuster and the broker, in combination are worse;

the lawyer and the assured in combination beat both the above combinations, but the assured alone not infrequently gives the most vexation.

The amazing lapses of memory that afflict policy holders after a loss occurs are frequently a source of great annoyance to Companies' adjusters. It is common for a merchant or manufacturer to entirely forget or pretend he forgets, everything he ever knew of his business, when a fire comes along and gives him a damage and the opportunity to claim on his Insurance Companies. It would be amusing, were it not so scandalous, how many times the Companies' men are referred to public adjusters for information as to values and other matters only known to the insured or his employees. Even reputable merchants are not above keeping back information that should be as open as the skies. I have known cases where prominent houses could not apparently get nearer in their statements, than sixty per cent. of the sound value of their stock. But, there are many exceptions and Companies' adjusters oft times have pleasant experiences finding claimants with equitable and fair minded temperaments, although usually mistaken as to their exact rights of recovery.

And now a word for the adjuster himself; perhaps, the most distressing views of adjusters are held by one's own friends—"Why is it that Companies' adjusters are always unfair?" said a young man, a manufacturer of special machinery, to me not so long ago. I found the explanation for his attitude when I discovered his point of view was all awry; he had made up his mind, that the insurance contract did, or should, cover every kind of loss by fire, direct, indirect, consequential, real or imaginary. In event of a loss on his stock, he declared it would be worthless to him, and therefore, the insurance on it should be paid in full. He was not even willing to take the trouble to ascertain its sound value. The contents of his machine shop, he declared, would be rendered valueless, and he would not be willing to risk his employees' or his own life, using machinery that had been exposed to a fire.

The adjuster, someone has said, is born, not made, nevertheless, I have a great admiration for the "home-made" article—He who in a large measure has in his make up, patience, tact and determination, is likely to get there; other qualifications there are, valuable and useful, but without these things, look for failure. Then there must be diligence, application and concentration, he should be a man of peace, but ready to fight on occasion. An old friend of mine, himself a perfect model of an equitable ad-

juster, once in my hearing, deplored his inability to speak the languages of all nations purveying loss claimants, but thanked God, he could at least meet the abusive, flippant and provocative claimant and give him a Roland for his Oliver.

"Rough Notes," many years ago, published the following qualifications for a modern adjuster:

"Adjuster: 1. An insurance employee whose employers are best pleased when he is idle. 2. One who estimates the loss caused by a fire. 3. An adjuster to be successful, must be courteous, diplomatic, shrewd, an expert jollier, of an equable temper, slow to anger, a Sherlock Holmes, up-to-date, good looking, with honest blue eyes and a glad hand, a good memory, good cigars, business judgment, the embodiment of virtue, and with a working knowledge of all evil. He must understand bookkeeping, banking, law, and human nature. He must be a mind reader, a hypnotist, and an athlete. He must have a knowledge of tongues like a Castle Garden interpreter, and be as familiar with the dead languages as a college professor, and know how to figure his expense account like a thirty-third degree wholesale drummer. He must be acquainted with machinery of all kinds, and he must know the price of everything from a shoe string to a skyscraper. He must have a keen sense of smell, clear eyesight, and so on ad limitum."

Bill Nye said: "An Insurance Adjuster is one who stands between the insured and immediate wealth."

Whatever else an adjuster is, he must not be careless. I do not mean that he must be free from mistakes, mistakes of judgment, mistakes of omission or mistakes of commission, but he must not be a blunderer. He must not be unfair to the insured and equally it is demanded of him that he must not be untrue to the interests of the *insurers*. Careless adjustments are heard of frequently enough to amount almost to a scandal, and whatever the influences, should be stamped out. Some at least of these "careless" adjustments, are due to the competitive side of the business—some due to languidness, i. e. laziness, and others due to pure cussedness. The first class are liable to turn up where several and distinct groups of Companies have common interests in warehouse, free or bonded, on merchandise of similar kinds and qualities. The lack of co-operation in these cases is lamentable oft times. Under the second caption, much that is wrong can be charged to the unwillingness of the adjuster to climb stairs, fire escapes, or even go into cellars, preferring to rely upon the judgment of someone else, more athletic but less experienced, and the last class is the worst of all. That two merchants possessing the same class of merchandise involved in a fire, with equal

and common rights of recovery, should be paid different amounts for values, and varying percentages of damage, is almost criminal.

Mr. A. F. Dean some years ago, paraphrasing to some extent the "Rough Notes" definition, gave us the following description of what he was pleased to say represented

"THE IDEAL ADJUSTER"

An ideal adjuster is partly born and partly made by experience, but no experience can make a successful adjuster unless birth has done its part. The ideal adjuster needs not only to be honest, but to look honest. He should inspire confidence by his tact, address and personal magnetism. He ought to be familiar with insurance law, commercial usage and human nature. He needs a Sherlock Holmes nose for detecting and tracking fraud to its lair, and, at the same time, a nose equally sensitive to the aroma of honesty—a nose that will lead him unerringly along the path that lies between the boundaries of optimism and pessimism. He must know much of the nature and values of all classes of property. He ought to be a skillful accountant and enough of a builder to make a detailed estimate of the cost of replacing a vanished building. He ought to have a fair knowledge of literature and art, know books, pictures, music, and musical instruments. He ought to be a family man and a ladies' man in the best sense of the term. He ought to be a connoisseur in pots, kettles and dish-pans, cook stoves, pianos, photograph albums, Little Liver Pills, Radway's Ready Relief, and all the long category of alliterative cure-alls, sewing machines, silverware, bedding, books, bicycles, bonnets and wearing apparel, without regard to age, sex or condition, from baby linen and ladies' lingerie to hob-nailed shoes, golfing suits, St. Patrick's Day regalia and liver pads. He ought to be able to recognize at their true value pictures of every school, including the boarding school. He ought to be an expert in all objects of "bigotry and virtue," with their endless variety and range in value, from the plaster casts and chromos in the humble home of the farmer or mechanic to the priceless art treasures in the palace of the plutocrat. He ought to be prepared to deal with all these things, hallowed by prejudice or associations, bruised, battered, torn, water-soaked, smoked or reduced to an ash heap, knowingly, sympathetically, reverently and unflinchingly. The annals of statecraft furnish no more shining examples of diplomacy than could be told of the everyday experience of the fire adjuster.

If friction in the adjustment of fire losses exists, it is because of the lack of the man who can be and do these things—the ideal adjuster does not grow on every bush.

PRINTED AUGUST, 1915

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